

UNCORRECTED MATERIAL WEAKNESS  
IDENTIFIED DURING PRIOR PERIOD  
FY1993

Title and Description of Material Weakness: Department of the Navy Revolving Funds Chief Financial Officers (CFO) Financial Statements Accountability (OSD#93-021).

Industrial Activities - The Property, Plant and Equipment account, including accumulated depreciation, contained errors (e.g., fixed assets recorded in the financial statements could not be located; fixed assets were not removed from the financial statements after disposal or transfer; and assets were mis-classified).<sup>1</sup> Inventories Not Held for Sale were inaccurate; physical inventories were not conducted, or, when conducted, were incomplete; unused material was not returned to the appropriate inventory account or recorded on financial records; excess material was not disposed of in a timely fashion, and stock levels were not always reviewed for excesses. Accruals were posted in the wrong year, were not adequately liquidated, and were improperly written off. Financial statements footnotes did not provide required disclosures. Other Non-Federal (Governmental) Liabilities included invalid Accrued Expenses - Other and Advances - Other, Non-Federal.<sup>3</sup> Other Revenues and Financing Sources, and Depreciation and Amortization were misstated because financing source and corresponding depreciation expense from real property assets were not recognized.<sup>5</sup> Work in Process was inaccurate because uncollectible cost overruns were not written off.

Supply Activities - Financial inventory records for Inventory Held for Sale were inaccurate because the closing inventory balance included negative (credit) inventory balances. Perpetual inventory records for material at wholesale Navy stock points were not accurate. Supply and financial records for material differed and required quarterly reconciliations were not performed. Material-in-Transit (MIT)<sup>1</sup> and progress payments account balances were not accurate. Unmatched Stock-in-Transit (SIT) balances were not accurate,<sup>2</sup> and SIT financial and inventory records differed. The Fund Balance with Treasury inappropriately included estimates for collections for non-reporting activities, estimates that were inaccurate and duplicate reporting of collections, resulting in potential Antideficiency Act violations. The Accounts Receivable, Net, Federal account was misstated because sales were based on estimates when actual data was not submitted. Advances and Prepayments, Non-Federal account balance was not accurate.<sup>4</sup> Other Federal (Intra-governmental) Liabilities account balance was not accurate due to systemic processing problems. Accounts Payable, Non-Federal account was inaccurate because definitized price contract modifications were not maintained. contract review procedures were inadequate, non-electronic reporters receipts were not recorded and receipt errors were not corrected.<sup>4</sup> Accrued Payroll and Benefits account was inaccurate.

Industrial Activities and Supply Activities - The Accounts Payable, Federal accounts were not liquidated because of erroneous and untimely recording of payment information; insufficient or non-existent supporting documentation; late posting of receipt of goods and services; and price

ENCLOSURE (1)

or quantity variances.<sup>3</sup> The Accounts Receivable, Net, Federal and Accounts Receivable, Net, Non-Federal<sup>6</sup> accounts were inaccurate because transactions were not posted correctly, receivables were not reported and amounts reported were not owed. The Accounts Payable, Non-Federal account was inaccurate because of inadequate records and untimely processing.<sup>5</sup> The Accrued Payroll and Benefits account was inaccurate because of premature clearing of accrued amounts, failure to make adjustments at fiscal year end and insufficient management oversight.<sup>5</sup> The financial statements did not include all eliminating entries for Accounts Receivable and Unearned Revenue.

These material weaknesses cannot be resolved only by corrective actions within the Department of the Navy (DON), but require involvement from other sources. Correction of systemic problems in supply activities MIT and progress payment account balances and other accounts such as Accounts Receivable, Net, Federal; Accounts Receivable, Net, Non-Federal; Advances and Prepayments, Non-Federal; Operating Materials and Supplies, Net; Accounts Payable, Federal; Accounts Payable, Non-Federal; Accrued Payroll and Benefits; Other Non-Federal (Governmental) Liabilities; and Other Revenues and Financing Sources and related Depreciation and Amortization, are contingent on outside sources.

Functional Category: Comptroller and Resource Management

Pace of Corrective Action:

Year Identified: FY 1993

Original Targeted Correction Date: FY 1995

Targeted Correction Date in Last Year's Report: FY 1999

Current Target Date: FY 2000

Reason for Change in Date(s): The identified weaknesses have not been corrected.

Component/Appropriation/AccountNumber: NWCF (97x4930)

Validation Process: All corrective action(s) are certified by responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review. Plans for, and progress on, corrective actions will be addressed in status reports on open audit recommendations. The Assistant Secretary of the Navy's (Research, Development and Acquisition) plans and progress on assigned corrective actions, when appropriate, will be reported via the Annual FMFIA assurance statement.

Results Indicators: Correction of material weaknesses identified during audits of CFO financial statements will be shown when the statements receive an unqualified audit opinion.

Source(s) Identifying Weakness:

- NAVAUDSVC Report No. 074-S-92, "Marine Corps Industrial Fluid Financial Statements (FY 1991)," June 30, 1992
- NAVAUDSVC Report Nu. 075-S-92, "Financial Audit of the FY 1991 Navy Industrial Fund(17X4912) Property, Plant, and Equipment Account," June 30, 1992
- NAVAUDSVC Report Nu. 076-N-92, "Financial Audit of the Department of the Navy Stock Fund-FY 1991," June 30,1992
- NAVAUDSVC Report No. 053-H-93, "FY 1992 Consolidating Financial Statements of the Department of the Navy DBOF," June 30, 1993
- NAVAUDSVC Report No. 053-H-94, "FY 1993 Consolidating Financial Statements of the Department of the Navy DBOF," June 29, 1994
- NAVAUDSVC Report No. 044-95, "FY 1994 Consolidating Financial Statements of the Department of the Navy DBOF," May 30,1995
- NAVAUDSVC Report No. 035-96, "FY 1995 Consolidating Financial Statements of the Department of the Navy DBOF," May 31,1996
- NAVAUDSVC Report No. 040-97, "FY 1996 Consolidating Financial Statements of the Department of the Navy DBOF," June 16,1997
- DODIG Report No. 97-178, "Internal Controls and Compliance With Laws and Regulations for the DBOF Consolidated Financial Statements for FY 1996," June 26,1997
- NAVAUDSVC Report No. 024-98, "FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund," February 27,1998
- NAVAUDSVC Report No. 049-98, "FYs 1997 and 1996 Consolidated Financial Statements of the Department of the Navy Working Capital Fund: Reportable Conditions," September 28,1998
- GAO/AIMD Report No. 98-56, "CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies," March 16,1998
- DODIG Report No. 98-106, "Inspector General, DOD Oversight of the NAVAUDSVC Audit of the NWCF Financial Statements for FYs 1997 and 1996," April 7,1998
- DODIG Report No. 99-005, "Compilation of the NWCF FY 1997 Financial Statements at the Defense Finance and Accounting Service Cleveland Center," October 5 , 1998\*

- NAVAUDSVC Report No. 027-99, "FY 1998 Consolidated Financial Statements of the Department of the Navy Working Capital Fund," February 22, 1999\*
- NAVAUDSVC Report No. 048-99, "FY 1998 Department of the Navy Principal Statements and Working Capital Fund Consolidated Financial Statements Eliminating Entries," July 22, 1999\*

Major Milestones in Corrective Action: (C=Completed)

Completed Milestones;

Date:	Milestone:
C	Supply activities perform required quarterly supply and financial record reconciliations to ensure supply and financial record accuracy.
C	Supply activities perform periodic reconciliations between master stock item record and master data file to maintain accurate inventory balances.
C	Supply activities adjust MIT and progress payments for discrepancies identified by the auditors, and reflect adjustments and corrections in the FY 1993 financial statements.
C	Supply activity management command monitor inventory accounting and billing operation (PX06) software implementation to ensure timely correction of deficiencies that cause imbalances between supply and financial records. Provide disclosure in financial statement of actual implementation date.
C	Supply and industrial activities ensure full financial statement footnotes disclosure in accordance with DOD guidance and as agreed upon in responses to audit reports to make financial statements more meaningful.
C	Industrial activities conduct wall-to-wall inventory whenever accuracy is found to be less than 65 percent during inventories, and provide results of review in FY 1994 financial statements and footnotes.
C	Supply activities adjust SIT for invalid transactions reported by auditors and make adjustments to FY 1993 financial statements.
C	Industrial activities return unused material to appropriate inventory accounts and makes adjustments to financial statements prior to base closure.

- C Supply activities revise procedures for performing contract reviews to require standard documented contract selection criteria and require the activity to maintain documentation of selection criteria, contracts selected for review and results of review.
- C Supply activities correct receipt errors identified during the audit.
- C Supply activities use Defense Business Management System to report year-end accrued annual leave.
- C Supply activities stop estimating collections, disbursements, and sales for non-reporting activities.
- C Management command determine if a request for a preliminary review of potential Anti-deficiency Act violations is needed.
- C Supply activities management command correct the systems' interface and process problems to prevent overstatements from occurring in processing of Other Federal (Intragovernmental) Liabilities.
- C Supply activities capture in the Accounts Payable, Non-Federal account the value of material accepted at contractor plants but not yet received.
- C Supply activities monitor and report on actions taken to develop and implement PXO2 and PXO4 to ensure corrections of systemic problems that cause invalid MIT and progress payments balances.
- C Industrial activity management commands validate accrual deficiencies identified by auditors, and make adjustments to statements based on errors detected.
- C Supply activities have all definitizing contract modifications sent to accounting personnel.
- C Have an accounting firm prepare and coordinate procedures and accounting systems changes to implement the policy to discontinue use of Allowance for Losses.
- C DON issues guidance to industrial activities for implementation upon receipt of the accounting firm's interim guidance to identify and accumulate eliminating entry information for Accounts Receivable and Unearned Revenue.

Planned Milestones (FY 2000):

Date:	Milestone:
9/00	Industrial activities will (1) complete a plan to validate current balances of Operating Material and Supplies, Net (MIT) account and Property, Plant, and Equipment, Net account including depreciation, (2) ensure compliance with applicable guidance to correct the deficiencies reported by audits, and (3) document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm will prepare and coordinate procedures and accounting systems changes to implement recognition of losses when disposing of assets.
9/00	Industrial activities will complete a plan to use statistical sampling techniques for inventory of Operating Material and Supplies, will conduct inventory in accordance with applicable instructions, determine when complete inventories are needed, and document the plan. <sup>1</sup>
9/00	Industrial activities will complete a plan to determine the value of excess inventory and document the plan. An accounting firm is to prepare and coordinate procedures and accounting systems changes to implement the policy for revaluing excess inventory to net realizable value. <sup>1</sup>
9/00	Industrial activities will complete a plan to validate the balances of Accrued Expenses - Other and Advances - Other, Non-Federal accounts to ensure that documentation is maintained to support those accounts and determine the extent of invalid accruals, and document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm is to prepare and coordinate procedures and accountings stems changes to allow for recording federal and non-federal liabilities. <sup>3</sup>
9/00	Supply and industrial activities will complete a plan to periodically validate the balance of Accounts Payable, Federal to assure that only valid liabilities are recorded and reported, and document the plan in their FY 2000 Annual FMFIA Statement of Assurance. An accounting firm is to take corrective action to strengthen the account balance reconciliation process. <sup>3</sup>
9/00	Supply activities management command will take action to develop and implement an Advanced Traceability and Control, Ready for Issue/Returns Redistribution Order Accountability and Control System to correct the differences between the SIT financial and inventory records.

- 9/00 Supply activities will identify a material weakness to include Advances and Prepayments, Non-Federal in their FY 2000 Annual FMFIA Statement of Assurance, along with a plan for corrective action.<sup>5</sup> Supply and industrial activities will identify in their FY 2000 Annual FMFIA Statement of Assurance: (1) a material weakness to include the Accounts Receivable, Net, Federal<sup>5</sup> and Accounts Receivable, Net, Non-Federal<sup>6</sup> accounts, and include a plan to ensure transactions are documented and represent amounts due; (2) a material weakness to include the Accounts Payable, Non-Federal account, and include a plan to ensure the account is periodically reviewed to ensure that supporting documentation is maintained, and to ensure that liabilities are recorded in the correct accounting period; (3) a material weakness to include Accrued Payroll and Benefits in their FY 2000 Annual FMFIA Statement of Assurance, along with a plan for corrective action; and (4) a material weakness to include Other Federal (Intragovernmental) Liabilities.<sup>6</sup> Industrial activities are to identify a material weakness in their FY 2000 Annual FMFIA Statement of Assurance regarding Work in Process, along with a plan for corrective action, to ensure uncollectible cost overruns are written off. An accounting firm will take corrective action to strengthen the account balance reconciliation process for the Fund Balance with Treasury;<sup>6</sup> Accounts Receivable, Net, Federal; Accounts Receivable, Net, Non-Federal; Accounts Payable, Non-Federal; Work in Process;<sup>6</sup> and Operating Materials and Supplies, Net;<sup>6</sup> accounts.
- 9/00 Industrial activities will report financing source and corresponding depreciation expense from real property assets in Other Revenues Financing Sources and Depreciation and Amortization. An accounting firm will prepare and coordinate procedures and accounting systems changes.<sup>5</sup>
- 9/00 Verification: Plans for and progress on most corrective actions will be addressed in status reports on open audit recommendations. In addition, some corrective actions will be reported via the Annual FMFIA Statement of Assurance. Corrective actions are also reviewed through follow-up audits, inspections, and quality assurance reviews.

Planned Milestones (Beyond FY 2000):

Date:	Milestone:
	None

Status of Participating Office/Organization:

DFAS (X) Undetermined

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\* *Source added in FY 1999*

Footnotes:

<sup>1</sup> Material weakness first reported in FY 1993. Corrective actions continue.

<sup>2</sup> Material weakness first reported in FY 1993.

<sup>3</sup> Material weakness first reported in FY 1994. Corrective actions continue.

<sup>4</sup> Material weakness first reported in FY 1995. Corrective actions continue.

<sup>5</sup> Material weakness first reported in FY 1996. Corrective actions continue.

<sup>6</sup> Material weakness first reported in FY 1998, Correctiveactions continue.